



UNITED STATES PATENT AND TRADEMARK OFFICE

UNITED STATES DEPARTMENT OF COMMERCE
United States Patent and Trademark Office
Address: COMMISSIONER FOR PATENTS
P.O. Box 1450
Alexandria, Virginia 22313-1450
www.uspto.gov

APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
10/614,137	07/07/2003	Allen R. Friedman	36287-04401	9017
27171 7590 05/14/2008 MILBANK, TWEED, HADLEY & MCCLOY 1 CHASE MANHATTAN PLAZA NEW YORK, NY 10005-1413				
EXAMINER				
ALL HATTEM				
ART UNIT		PAPER NUMBER		
3692				
MAIL DATE		DELIVERY MODE		
05/14/2008		PAPER		

Please find below and/or attached an Office communication concerning this application or proceeding.

The time period for reply, if any, is set in the attached communication.

Office Action Summary

Application No.

10/614,137

Applicant(s)

FRIEDMAN ET AL.

Examiner

HATEM ALI

Art Unit

3692

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --
Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) OR THIRTY (30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

- 1) ☒ Responsive to communication(s) filed on 17 March 2008.
- 2a) ☒ This action is **FINAL**. 2b) ☐ This action is non-final.
- 3) ☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

- 4) ☒ Claim(s) 1-31 is/are pending in the application.
- 4a) Of the above claim(s) _____ is/are withdrawn from consideration.
- 5) ☐ Claim(s) _____ is/are allowed.
- 6) ☒ Claim(s) 1-31 is/are rejected.
- 7) ☐ Claim(s) _____ is/are objected to.
- 8) ☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

- 9) ☐ The specification is objected to by the Examiner.
- 10) ☐ The drawing(s) filed on _____ is/are: a) ☐ accepted or b) ☐ objected to by the Examiner.
Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).
Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).
- 11) ☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

- 12) ☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).
- a) ☐ All b) ☐ Some * c) ☐ None of:
1. ☐ Certified copies of the priority documents have been received.
 2. ☐ Certified copies of the priority documents have been received in Application No. _____.
 3. ☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

- 1) ☒ Notice of References Cited (PTO-892)
- 2) ☐ Notice of Draftsperson's Patent Drawing Review (PTO-946)
- 3) ☐ Information Disclosure Statement(s) (PTO/SF/ICE)
Paper No(s)/Mail Date _____
- 4) ☐ Interview Summary (PTO-413)
Paper No(s)/Mail Date _____
- 5) ☐ Notice of Informal Patent Application
- 6) ☐ Other: _____

DETAILED ACTION

1. The following is a **Final Action** on **merits** in response to a communication receipt on **3/17/08**

Acknowledgement

2. The amended **claims 1,11, 17, 19, 20 and 27** received on 3/17/0 have been entered. As such **claims 1-31** are pending.

Claim Rejections - 35 USC § 112

3. The following is a quotation of the first paragraph of 35 U.S.C. 112:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same and shall set forth the best mode contemplated by the inventor of carrying out his invention.

4. **Claims 1- 31** are rejected under 35 U.S.C. 112, first paragraph, as failing to comply with the written description requirement. The claim(s) contains subject matter which was not described in the specification in such a way as to reasonably convey to one skilled in the relevant art that the inventor(s), at the time the application was filed, had possession of the claimed invention.

In the claim 1, line 2, the recitation, “purchasing all rights” is a new matter not found in the specification.

In the claims 1, 19 and 20 lines 4, 7 and 4 respectively the recitations, “purchase does not require exercise” and “exchange of the employee stock option (ESO) does not require exercise” are new matters not found in specification.

In the claim 11, line 7, "in exchange for all rights" is a new matter not found in the specification.

In the claim 17, line 7, the recitation, "distinct from exercise rights of the ESO" is also a new matter not found in the specification.

In the claims 19, 20 and 27, lines 7, 4 and 5, the recitations, "exchange of the ESO does not require exercise" are also new matter not found in the specification.

Claim Rejections - 35 USC § 102

5. The following is a quotation of the appropriate paragraphs of 35 U.S.C. 102 that form the basis for the rejections under this section made in this Office action:

A person shall be entitled to a patent unless –

(e) the invention was described in (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for purposes of this subsection of an application filed in the United States only if the international application designated the United States and was published under Article 21(2) of such treaty in the English language.

6. **Claims 11-16 and 19** are rejected under 35 U.S.C. 102(e) as being anticipated by **Rudkin** (2004/0199449).

As per claim 11, **Rudkn** discloses a method for transfer (**abstract-transferability**) of employee stock options, the method comprising:

determining an economic value of an employee stock option, the employee stock option held by an employee, based on an option pricing formula (**para, 0056, 0070**,

0078 and 0137- 0140; via ESO **binominal module 120**, value of the optimal return function and formula);

making the economic value available to the employee holder of the employee stock option; and providing the economic value to the employee holder of the employee stock option in exchange for all rights in the employee stock option for the economic value (**para 0008 and 0037-0039**; via early exercise decision to maximize the utility of terminal economic wealth and **para 0016**; via ESOs can be exercised [implied rights]).

As per claims 12 - 13, Rudkin discloses the economic value is a cash value and a number of shares (**para 0137 and 0157 [Fig.2-3]**; via maximize the terminal utility wealth with options implied cash value).

As per claims 14-16, Rudkin discloses the step of exchanging occurs periodically within a predetermined window of time and the option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO **binominal module 120**, value of the optimal return function and formula).

As per claim 19, Rudkin discloses **a method** for transfer (see abstract-transferability) of employee stock options, the method comprising:

determining a cash value of an underwater employee stock option based on the Black-Scholes option pricing formula (**para 0009**; via value of ESOs by more than 50 percent);

publishing the cash value (**para 0150 and Table E**); and

exchanging the underwater employee stock option for the cash value during a predetermined window of time, wherein exchange of the employee stock option does not require exercise of the employee stock option (para 0022; via repricabe ESOs when under water and para 0014; via after vesting ESOs can be exercised includes exchanged/transfer as implied).

Claim Rejections - 35 USC § 103

7. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

8. **Claims 1-5 and 17-18** are rejected under 35 U.S.C. 103(a) as being unpatentable over ***Rudkin*** in view of ***Bodurtha*** et al(7,212,990).

As per claim 1, *Rudkin* discloses a method for transfer (see abstract; via transferability) of employee stock options, the method comprising:

purchasing all rights to an employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option (para, 0025; via purchasing ESOs implied with or without exercise and para 0016; via ESOs can be exercised); and

hedging the employee stock option (**para, 0012**; via to exercise for liquidity as employees unable to hedge the risk option).

Rudkin fails explicitly to disclose the step of purchasing all rights to an employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option

However, **Bodurtha** being in the same field of invention discloses the step of purchasing all rights to an employee stock option from an employee holding the employee stock option, wherein purchase does not require exercise of the employee stock option (**col.3**, lines 9-26 via transfer rights and **col.5**, lines 1-5; via exercises thevoting rights).

Therefore, it would have been obvious to an ordinary skill in the art at the time of invention to modify the features and disclosures mentioned by **Rudkin** to include the disclosures as taught by **Bodurtha** in order to facilitate the shareholders to transfer rights in the underlying securities including various option and future markets tied to the Security Receipt.

As per claims 2 - 3, **Rudkin** discloses further step of determining a value of the employee stock option using an option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods (**para, 0056, 0070, 0078 and 0137- 0140**; via ESO binominal module 120, value of the optimal return function and formula).

As per claims 4 - 5, **Rudkin** discloses an offering and issuing of securities underlying the employee stock option (**para 0007**; via US firms and ESOs).

As per claim 17, *Rudkin* discloses a method for issue of employee stock options, the method comprising:

issuing an employee stock option with transfer rights that allow transfer of the stock option to a third party (para 0016, line 1-5; via ESOs can be exercised [implied and obvious -transfer] any time after the ESO vests and on or before the option's expiration date); and

establishing a beginning date for the transfer rights at a predetermined date following the date of issue of the employee stock option (para 0014 and 0016; via ESO can be exercised [implied and obviously include - transfer] only after vested a preset number of years).

Rudkin fails explicitly to disclose that transfer rights of the employee stock option are distinct from exercise rights of the employee stock option, and the transfer rights allow transfer of all rights in the employee stock option to the third party in exchange for value without requiring exercise of the employee stock option.

However, ***Bodurtha*** being in the same field of invention discloses that transfer rights of the employee stock option are distinct from exercise rights of the employee stock option, and the transfer rights allow transfer of all rights in the employee stock option to the third party in exchange for value without requiring exercise of the employee stock option (col.3, lines 9-26 via transfer rights and col.5, lines 1-5; via exercises thevoting rights).

Therefore, it would have been obvious to an ordinary skill in the art at the time of invention to modify the features and disclosures mentioned by **Rudkin** to include the disclosures as taught by **Bodurtha** in order to facilitate the shareholders to transfer rights in the underlying securities including various option and future markets tied to the Security Receipt.

As per claim 18, Rudkin discloses the employee stock option includes

a vesting date and the beginning date is later than the vesting date (**para 0014**;
via ESO can be exercised only after vested a preset number of years).

9. **Claims 6-10** are rejected under 35 U.S.C. 103(a) as being unpatentable over **Rudkin** in view of **Bodurtha et al** (7,212,990) and **Sullivan et al** (2002/0194136).

As per claims 6-7, Rudkin fails explicitly to disclose either one time or periodically repeating the purchasing and hedging selected from the group consisting of monthly, quarterly, semi-annually and annually.

However, **Sullivan** in the same field of invention teaches a concept of purchasing and hedging employee stock options at any time up to maturity [American Style] (**para 0003 and 0015**; via option and hedging system).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the features and disclosures as mentioned by **Rudkin** and **Bodurtha** to include the disclosures of timing for the purchasing and hedging of ESOs as taught by **Sullivan** in order to match with the timing of option maturity.

As per claims 8-10, *Rudkin* fails explicitly to disclose hedging the employee stock option includes buying and short selling of securities and/or futures contracts and hedging the employee stock option to rebalance the hedge position.

However, ***Sullivan*** in the same field of invention teaches a concept, how financial institutions utilize listed options over the counter (OTC) for hedging strategies (para 0009).

Therefore it would have been obvious to one ordinary skill in the art at the time of invention was made to modify the disclosure and features mentioned by ***Rudkin*** and ***Bodurtha*** to include the buying- selling options as taught by ***Sullivan*** for hedging strategies in order to facilitate in organizing the hedging position.

10. **Claims 20-26 and 27-31** are rejected under 35 U.S.C. 103(a) as being unpatentable over ***Rudkin*** in view of ***Sullivan*** et al (2002/0194136).

11.

As per claim 20, *Rudkin* discloses the step of exchanging an economic value for all rights in an employee stock option, the economic value based on an option pricing formula, wherein exchange of the employee stock option does not require exercise of the employee stock option; and judging the employee stock option with future (para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the optimal return function and formula and para 0014; via after vesting exercised includes exchange or transfer implied),

Rudkin fails explicitly to disclose a method for hedging the employee stock option with a future.

However, **Sullivan** in the same field of invention teaches for individual to hedge employee stock options (**abstract**) for derivative securities such as futures and options (**para 0008 and 0009**; via hedging and futures).

Therefore, it would have been obvious to one of the ordinary skill in the art at the time of invention was made to modify the features and disclosures of **Rudkin** to include the disclosures as taught by **Sullivan** in order to hedge the risk of adverse price and market fluctuations.

As per claim 21, Rudkin discloses the step of borrowing, purchasing and selling a1-Delta amount of stock (**para 0006 and 0069**; via ESOs give an employee the right to purchase and inherently borrowing-selling for hedging transactions of any incremental amounts like Delta)

As per claim 22, Rudkin discloses the step of determining whether it is optimal to early exercise the future (**para 0050**).

As per claim 23, Rudkin discloses the step of further determining whether the employee stock option is in the money (**para 0019**; via "in the money").

As per claim 24, Rudkin discloses further exercising the employee stock option (**para 0017**; via ESOs can be exercised any time after the ESOs vested).

As per claims 25-26, Rudkin discloses the step of closing out the future position and delivering a prospectus (**para 0050**).

As per claim 27, Rudkin discloses exchanging an economic value for all rights in an employee stock option, the economic value based on an option pricing formula,

wherein exchange of the employee stock option does not require exercise of the employee stock option; and hedging the employee stock option with stock(**para, 0056, 0070, 0078 and 0137- 0140**; via ESO binominal module **120**, value of the optimal return function and formula and **para 0014**; via after vesting exercised includes exchange or transfer implied);

Rudkin fails explicitly to teach hedging the employee stock option with stock.

However, **Sullivan** in the same field of invention discloses exchanging an economic value for an employee stock option, the economic value based on an option pricing formula (**para 0009**).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the features and disclosures as taught by **Rudkin** to include the disclosure of **Sullivan** in order to generate additional income.

As per claims 28-29, Rudkin discloses further step of borrowing an amount of stock equal to the amount of the employee stock options received in the exchange and selling a delta amount of stock (**para 0006 and 0069**; via ESOs give an employee the right to purchase and implied borrowing-selling for hedging transactions of any incremental amounts like Delta).

As per claims 30-31 Rudkin discloses the borrowing stock, and purchasing-selling a 1-delta amount of stock, monitoring changes in delta and buying or selling stock based on the changes in delta (**para 0006 and 0069**; via ESOs give an employee

the right to purchase and implied borrowing-selling for hedging transactions of any incremental amounts like Delta).

Response to Arguments

12. **Applicant's** arguments with respect to **claims 1-31** have been considered but are moot in view of the new ground(s) of rejection.

Applicant argued that **Rudkin** does not disclose of all rights to an ESO from an employee holding the ESO, where the purchase does not require exercise of the ESO (remark page 10, line 14) and if there is any transfer of rights to an ESO in **Sullivan** it appears to be limited to a security interest.....transfer of all rights (remark page 11, line 13).

Examiner cited for clarification as **Bodurtha** being in the same field of invention discloses that transfer rights of the employee stock option are distinct from exercise rights of the employee stock option, and the transfer rights allow transfer of all rights in the employee stock option to the third party in exchange for value without requiring exercise of the employee stock option (col.3, lines 9-26 via transfer rights and col.5, lines 1-5; via exercises thevoting rights),

Conclusion

13. Applicant's amendment necessitated the new ground(s) of rejection presented in this Office action. Accordingly, **THIS ACTION IS MADE FINAL**. See MPEP

§ 706.07(a). Applicant is reminded of the extension of time policy as set forth in 37 CFR 1.136(a).

A shortened statutory period for reply to this final action is set to expire THREE MONTHS from the mailing date of this action. In the event a first reply is filed within TWO MONTHS of the mailing date of this final action and the advisory action is not mailed until after the end of the THREE-MONTH shortened statutory period, then the shortened statutory period will expire on the date the advisory action is mailed, and any extension fee pursuant to 37 CFR 1.136(a) will be calculated from the mailing date of the advisory action. In no event, however, will the statutory period for reply expire later than SIX MONTHS from the date of this final action.

14. Any inquiry concerning this communication or earlier communications from the examiner should be directed to HATEM ALI whose telephone number is (571)270-3021. The examiner can normally be reached on 8.00 to 6.00.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Kambiz Abdi can be reached on 571-272-6702. The fax phone number for the organization where this application or proceeding is assigned is 571-273-8300.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see <http://pair-direct.uspto.gov>. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free). If you would like assistance from a USPTO Customer Service Representative or access to the automated information system, call 800-786-9199 (IN USA OR CANADA) or 571-272-1000.

/Harish T Dass/
Primary Examiner, Art Unit 3692

Hatem Ali
Examiner
Art Unit 3692